

RELOCATION INCOME TAX ALLOWANCE EMPLOYEE INFORMATION HANDOUT

1. What is a WTA and a RITA? A U.S. Government civilian employee who performs permanent change of station (PCS) travel is authorized reimbursement for certain moving expenses. Reimbursement for these expenses is taxable income to the employee. The Withholding Tax Allowance (WTA) covers the Federal Income Tax Withholding (FITW) on this payment. The Relocation Income Tax Allowance (RITA) is the final settlement to cover the actual federal, state, and local income taxes the employee incurs as a result of receiving the PCS moving expense reimbursements and WTA. While the actual computations can be quite complex, we hope this handout will give you a fairly clear idea of how WTA and RITA work.

2. Public Law 98-151 authorizes the WTA and RITA for employees who completed a PCS move and reported for duty on or after 14 November 1983. Certain employees are not covered by RITA: (a) new appointees (except new employees leaving the U.S. for an overseas assignment who are eligible for the miscellaneous expense reimbursement of the Foreign Transfer Act); (b) personnel returning from overseas locations for separation; and (c) employees assigned to a location under the Government Employees Training Act.

3. An explanation of these allowances follows:

a. **Withholding Tax Allowance (WTA).** The WTA is an amount equal to the taxes withheld on the PCS moving expenses reimbursement and on the WTA itself. When the employee files a travel voucher for a particular PCS entitlement, the finance and accounting office (FAO) computes the travel voucher and automatically pays the WTA. However, WTAs are not paid on all PCS moving expense reimbursements. The general rule is: WTAs are paid if the PCS moving expense reimbursement is not totally tax deductible. For example, en route travel from the old to the new duty station is totally tax deductible and a WTA will not be paid. Similarly, shipment of household goods is totally tax deductible and a WTA will not be paid. Other reimbursements, such as house hunting and temporary quarters, are partially tax deductible and a WTA is paid on the amount of reimbursement which exceeds the tax deduction limit. Again, the WTA is designed to equal the amount of federal income tax withheld on the PCS reimbursement and the WTA itself. The employee receives the same net payment as if no tax was withheld. To illustrate, let's look at a simplified case involving federal income tax only. Assume taxable PCS moving expense reimbursements of \$1,000. Since IRS considers this as miscellaneous income to the employee, the FITW rate is 20%, or \$200. At first glance, the WTA should be \$200 to cover the \$200 FITW. However, the WTA itself is also taxable income and subject to FITW. Since the WTA must cover the FITW for both the original reimbursement and the WTA itself, we need to divide the original \$200 FITW by the portion of it the employee receives after tax withholding to determine the proper total or gross WTA amount. Since 20% of the total is withheld, the portion received equals one minus 20%, or 80%. Dividing \$200 by 0.8 gives a \$250 WTA. If we take the moving expense reimbursement of \$1,000 and add the \$250 WTA, we get a total reimbursement of \$1,250. FITW on the \$1,250 at 20% is \$250 and the employee receives \$1,250 minus \$250, or \$1,000. The \$1,000 matches the amount of reimbursable expenses we started with, and the TD Form W-2 shows \$250 in FITW. Note that the \$250 WTA is 25% of the original \$1,000. We can show mathematically that the WTA will always be 25% of the amount reimbursed when FITW rate is 20%. Therefore, we can simplify WTA computation by just multiplying the taxable reimbursement amount by 25%. The above computations are summarized as follows:

Expenses:	\$1,000.00	Need after tax WTA of \$200.00	Net to employee	\$1,000.00
FITW (0.20 X 1,000) =	<u>200.00</u>	Let X = WTA	Total FITW = 200 + 50	<u>250.00</u>
	\$800.00	20% withholding on WTA (0.2 x X)	Total income included on W-2	\$1,250.00
		X - .2X =		
		.8X =		
		X = 200/.8 =		
		Less FITW (0.2 x 250) =		
		<u>50.00</u>		
		\$200.00		

b. **Relocation Income Tax Allowance (RITA).**

(1) The RITA payment is paid the year following the year in which the PCS moving expense reimbursements were made. For example, if the expenses were reimbursed in November 1988, then the RITA would be paid in 1989. The RITA payment is meant to adjust the previous WTA payment(s). It is also based on the tax deduction limits and rules. To continue the simplified example for WTA above, assume that the actual marginal tax rate for the employee is 28% in both Year 1 (when paid WTA) and Year 2 (when paid RITA). The employee would actually pay 28% of \$1,250, or \$350 in Year 1 taxes. However, since withholding at 20% was only \$250, the employee owes another \$100 in taxes when the Year 1 return is filed in Year 2. The Year 2 RITA computation reimburses this \$100 plus taxes on the reimbursement. Again, if we divide the amount due the employee after taxes by 1 minus the tax rate, we get the gross amount before taxes that will yield the correct after-tax payment. In this case, $\$100 / 0.72 = \138.89 . The Year 2 tax on \$138.89 at 28% is $0.28 \times \$138.89$, or \$38.89, so the employee will net the needed \$100 after taxes. Note that the actual payment will be \$111.11 since FITW at 20% for miscellaneous payments is only \$27.78. When Year 2 taxes are filed, the TD Form W-2 will include the \$27.78 FITW, and the employee will still owe the extra \$11.11 (\$38.89 minus \$27.78) received with the final RITA. To summarize these computations:

$$\begin{aligned}
 1. \text{ Taxes} &= 0.28 \times 1250 = 350.00 \\
 \text{FITW } (0.2 \times 1250) &= 250.00 \\
 \text{Balance due IRS} &= 100.00
 \end{aligned}$$

$$\begin{aligned}
 3. \text{ Year 2 Taxes} &= 0.28 \times 138.89 = 38.89 \\
 \text{Less FITW} &= 27.78 \\
 \text{Balance due IRS} &= 11.11
 \end{aligned}$$

$$\begin{aligned}
 2. \text{ Need after tax reimbursement of } \$100.00 \\
 \text{Let } X &= \text{reimbursement} \\
 X \text{ taxed at } 28\% \text{ or } 0.28X \\
 X - 0.28X &= 100.00 \\
 .72X &= 100.00 \\
 X &= 100/.72 = 138.89 \\
 \text{FITW at } 20\% &= 0.2 \times 138.89 = 27.78 \\
 \text{Net payment} &= 111.11
 \end{aligned}$$

$$\begin{aligned}
 4. \text{ Employee net after paying IRS} \\
 111.11 - 11.11 &= 100.00
 \end{aligned}$$

(2) If the employee's marginal tax rate was 28% in Year 1, but only 15% in Year 2, the same concept would apply. Calculation would be the same up to the point of determining \$350 in Year 1 taxes. However, now the actual tax on the extra \$100 needed to pay the balance of Year 1 taxes would be at only 15%. Dividing 100 by .85 (1 minus 0.15) gives \$117.65 as the total amount before taxes needed to provide the correct after-tax reimbursement. FITW at 20% on the \$117.65 would be \$23.53. In this case, the employee would have an extra \$5.88 (\$23.53 minus \$17.65) withheld. The \$5.88 would increase the refund or decrease the amount due when Year 2 taxes are filed.

4. The net effect of RITA for the federal employee and the government is the same as if the PCS reimbursements were not taxed. So, you may ask, why do we go through this complicated process? Taxing reimbursements does increase government revenue without an offsetting expenditure in the case of people not employed by the Federal Government. Apparently, in clarifying taxability of moving expense reimbursements, Congress thought it more appropriate to treat federal employees in the same way as private sector employees under the tax law. But, to take the burden off of the individual federal employee, we are authorized to reimburse the amount of the tax.

5. How to claim the WTAs and RITAs:

a. WTA: Employees who receive PCS moving expense reimbursements during the year are eligible for WTA and should complete a travel voucher (DD Form 1351-2), and forward the voucher to the FAO. Indicate on the travel voucher the previous PCS payments received. List the previous PCS payments in the "Prior Travel Payments" section of the DD Form 1351-2. If additional space is required, continue the listing of the prior payments in the remarks section (Section 26) on the reverse side of the travel voucher. In Section 5, "Reimbursable Expenses," of DD Form 1351-2, enter "WTA Claim for Calendar Year 19XX."

b. Final RITA: Employees who complete a PCS move and receive PCS moving expense reimbursements during a calendar year must file a claim for a final RITA payment. They must complete a travel voucher (DD Form 1351-2) and an additional RITA statement/certification. The claim will be filed in the year following the year in which the WTA was paid.

c. There are some special rules employees should be aware of:

(1) Employees may have to file more than one RITA claim if PCS moving expense payments were made in more than one calendar year. For example, an employee completes a PCS move in December 1988 and receives some PCS reimbursements in December 1988 and other PCS reimbursements in 1989. This employee would have to complete a RITA claim in 1989 using 1988 income data, tax filing status, etc. This claim would cover 1988 PCS moving expense reimbursements. The employee would also need to complete a RITA claim in 1990 using 1989 income data, tax filing status, etc., to cover 1989 PCS moving expense reimbursements.

(2) Public Law currently authorizes reimbursement for the added federal, state, city, and county income taxes. However, for moves during the period 14 November 1983 through 11 October 1984, the Public Law only covered reimbursement for federal, state, and city income taxes.

(3) If the employee paid income taxes on PCS moving expense reimbursements to more than one state and/or one locality, special rules apply. The employee should contact the finance and accounting office for additional guidance and assistance. The Base Staff Judge Advocate can be contacted for help in determining local tax rates.

6. The WTA and RITA payments are considered taxable income, and federal income taxes will be withheld. The RITA payment, along with the federal income tax, will be reported to tax authorities. For example, if a RITA payment was made in 1988, it must be included in the employee's tax return(s) for 1988. The finance and accounting office will provide the employee with a TD Form W-2 showing both total entitlement and the amount withheld (FITW).

7. Any questions you have about WTA and RITA should be addressed to your finance and accounting office, travel pay section. Any questions on income tax deductions, moving expense reimbursement deductions, or the tax treatment of RITAs should be referred to your tax advisor or Base Staff Judge Advocate.

8. If you need a copy of a prior year tax return or a transcript of tax account information, you may obtain it from the Internal Revenue Service Center where you filed your return.